

Coalbed natgas to help ease supply crunch -experts

NEW YORK, July 10 (Reuters) -

Natural gas production from coal fields is expected to double over the next decade as producers develop pipelines to consumers, providing long-term help in the U.S. supply crunch, experts said Thursday.

Production of coalbed methane (CBM), or gas that is absorbed in coal, should grow as companies and governments build more pipelines from Wyoming, the nation's largest coal-mining state, and tap new areas.

Recent high gas prices and unusually low stocks pushed Federal Reserve Chairman Alan Greenspan to testify on Capitol Hill for the second time in as many months on Thursday that the United States needs more ports for liquefied natural gas (LNG), a super-cooled, shippable form of gas.

"Greenspan continues to harp on LNG as a key part of the solution, but we also think that the subject of tight gas in places such as CBM will continue to rise to the forefront," Shannon Nome, energy analyst at JP Morgan, told a teleconference on Thursday.

Currently, barely 9.0 percent of U.S. gas production comes from CBM. But output is growing, and there are expectations the level could rise to 20 percent of U.S. gas production over the next 10 years.

In 2001, the latest year for which figures are available, CBM production hit 1.562 trillion cubic feet, more than four times the level a decade earlier.

Output stands to grow as pipelines near Wyoming's Powder River Basin, one of the biggest CBM fields, bring gas to market. Vast coal seams run just a few feet underground in Powder River, which means CBM wells there can run one fifth the cost similar wells at other fields.

Production capacity at Powder River of 1.2 billion cubic feet (bcf) per day has outgrown the ability for producers to bring gas to market by 200 million cubic feet per day, Peter Dea, Chief Executive Officer of Western Gas Resources, told the JP Morgan teleconference.

Capacity on several gas lines can be boosted, while two new lines may be built soon to take CBM from Wyoming to the Chicago area, Dea said.

Canadian pipeline company Enbridge is considering building one of the lines. The recently formed Wyoming Pipeline Authority is considering the other line, and the governor recently approved a \$1 billion bond issue for construction of that line.

While the Powder River Basin, Raton in Colorado, and San Juan in New Mexico are some of the world's top CBM fields, China, Russia and India are all untapped potential CBM producers, and Canadian output could swell, experts said.

"Up until the late 90s we had limited pipeline capacity and low gas prices and we were competing with abundant conventional gas supplies," said Michael Gatens, CEO of MGV Energy, the Canadian subsidiary of Quicksilver Resources.

"Here in Canada we are starting to see a real serious flattening or a decline in our conventional gas assets. We think unconventional gas is the place to be," he said.

CBM production was initially spurred by tax incentive Internal Revenue Code Section 29, which

provided a credit for sale of CBM and other alternative fuels from wells drilled until 1992 and sales of fuel until 2002.

The credit could resume under the federal energy bill being considered. If it passes, many CBM producers feel they can devote even more money to CBM production.

"I don't think there is any doubt, depending on the exact terms of the tax credit, that you would see shifting in capital more towards these unconventional projects," said Don DeCarlo a at Devon Energy . "That's one of the big upsides for us."

Green groups and ranchers say drilling for CBM discharges salty water, which destroys creekbeds and trees. Wyoming rancher Ed Swartz recently sued Wyoming's Department of Environmental Quality, claiming they issued permits to CBM producers without assessing the damage of salt water.

But Danny Simmons, Vice President with energy consultants Netherland, Sewell and Associates, said ranchers can typically use CBM associated water and in some cases it brings water to dry areas.

Efforts to streamline CBM permitting have increased with the recent formation of the Rocky Mountain Energy Council, a group of federal and state agencies. The group grew from Vice President Dick Cheney's task force on energy, said Dea, of Western Gas.

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